

DO NOW!

- What is an opportunity cost you have had today?

Marginal Thinking

“Is it worth it?”

Thinking at the Margin

- ❖ Is it worth it?
- ❖ A thing worth doing may not be worth doing well.
- ❖ Know when it's time to move on!
- ❖ Look forward, not back!
- ❖ When is enough enough?

MARGINAL



- What is the marginal benefit of an additional 15 minutes of sleep? What is the marginal opportunity cost?



- Marginal benefit/marginal cost analysis compares the additional benefit of another unit of the product or activity to the additional opportunity cost.

Unfortunate consequences of scarcity

- You will never be the best Student you could be.
- You will never be the best musician you could be.
- You will never be the best athlete you could be.
- I will never be the best teacher I could be.

Using Marginal Benefit/ Marginal Cost Analysis

- Investigating two alternatives
- What's the difference in benefits between the two?
- What's the difference in opportunity cost between the two?
- Is the marginal benefit of the choice greater than the marginal opportunity cost?
- Is this the best use of additional resources?

What is the benefit and what is the opportunity cost?

- How good a parent are you?
 - Your daughter has a hockey game and your boss has called an “emergency” meeting. (MB and MOC)
- How good a student are you?
 - You have a test tomorrow and your boss says she needs you at work. (MB and MOC)

What is the benefit and what is the opportunity cost?

- How good a teacher will I be?
 - I want to prepare a lesson plan but my son is asking for help with algebra. (MB and MOC)

Marginal Analysis

- We try to make the best use of our scarce resources by using them in particular activities (work, parenting, spousing) as long as the marginal benefit is greater than the marginal opportunity cost.

Cleaning the brown lake

- The lake is dirty.
- Let's clean it.
- How clean?
- What are the benefits of different degrees of clean?
- What is the marginal opportunity cost?

The relevant questions

- If I put one more hour of human capital into studying,
 - what difference will it make to my grade (benefit), and
 - what difference will it make to my friends in the short run (cost)?
- Is the additional studying the best use of my limited human capital, based on my estimates of net benefit?

Marginal Analysis –What's the difference?

- Marginal is the change the results from a little more or a little less of an activity
- When comparing two alternatives – what is the marginal benefit and the marginal opportunity cost of both alternatives?
- You only use marginal analysis when comparing two alternatives.
- Is the marginal benefit worth what I will be giving up?

Marginal Principle

- **MB greater than MOC, go for it!**
- **MB less than MOC, go back; you have gone too far.**

How much education and training is right for you?

- High school
- High school plus vocational training
- Two year college degree
- Four year college degree
- Etc.
- The rule: Continue your education as long as the marginal benefit of additional education is greater than the marginal opportunity cost of additional education.

The problem

- The rule is simple.
- The estimates of marginal benefit and marginal cost are not.
 - The estimates are of future benefits and costs.
 - Most of us are not very good at predicting the future

Marginal Analysis



- You got to know when to hold 'em
- Know when to fold 'em
- Know when to walk away
- And know when to run

A terrible movie

- ★ What is the marginal benefit of staying there for the next two hours?
- ★ What is the marginal benefit of the best alternative?
- ★ What should you do?



Whiteout!



- ➔ What is the marginal benefit of your being there for the next three days?
- ➔ What is the marginal benefit of the best alternative?
- ➔ What should you do?